

# Office of Attorney General Terry Goddard



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## **Terry Goddard Issues Auto Loan Mark-Up Alert**

(Phoenix, Ariz. – February 7, 2005) Attorney General Terry Goddard today issued the following Auto Loan Consumer Alert as part of Consumer Protection Week 2005. Complaints related to the purchase of a new or used car consistently rank among the top 10 consumer complaints filed with the Arizona Attorney General's Office.

### **Background**

People who get auto loans from automobile dealers sometimes pay hundreds or even thousands of dollars extra because of higher interest rates charged by dealers, and minorities usually pay the most.

Many dealers increase the loan interest rate to certain customers. Loans made by dealers usually come from an outside lender such as a bank or auto finance company. The lender authorizes the dealer to make the loan at a certain interest rate based on the current going rate and credit record of the purchaser. That is not, however, necessarily the rate charged to the buyer by the dealer.

To gain additional profit from the sale, the dealer can and sometimes will charge some customers an interest rate for the loan higher than the rate approved by the outside lender. The difference between the lender approved rate and the rate charged by the dealer is called the "mark-up".

This practice can substantially raise the cost of an auto loan. The purchaser will end up paying hundreds, if not thousands of dollars more by the time the loan is paid off. The extra money goes into the pocket of the dealer or is split between the dealer and the outside lender. It is pure profit.

Why are the loan rates increased by dealers for some customers and not others? The answer usually depends on how the salesperson "sizes up" the customer. A dealer may charge one customer little or no increase but charge the next customer a significantly marked up rate.

To make matters worse, many dealers increase the interest rate in a discriminatory manner. National studies show that African-Americans and Hispanics are much more likely to be charged a rate mark-up than Anglos. And the size of the mark-up is usually larger than mark-ups Anglos are charged.

### **What can you do to protect yourself?**

If you wish to know whether your vehicle loan is being marked up (and, if so, by how much), Goddard recommends that you ask the dealer about mark-ups before signing the contract. If the dealer informs you that there will be a mark-up, you are free to tell the dealer that the increased interest rate is unacceptable – or simply that that you would prefer to arrange the loan through another lender. You can also attempt to bargain with the dealer for a lower rate. A key question for the buyer should be, “Is this the lowest interest rate you can give me?”

If you have already purchased a car and wish to learn whether your loan has been marked up, the Goddard recommends that you contact your dealer and ask:

- (1) Whether the interest rate you were charged has a rate markup.
- (2) What interest rate was approved by the dealer based on your credit application.
- (3) How much mark-up was added to the interest rate approved by the lender.
- (4) How much of the mark-up was retained by the dealer.

The Attorney General further recommends that consumers request this information be provided to them in writing.

If you believe that the interest rate you were charged was marked up in a discriminatory manner, or that the dealer was not truthful with you, please call the Attorney General’s Office at (602) 542-5763 in Phoenix, (520) 628-6504 in Tucson and toll free in the rest of the state at (800)352-8431.

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